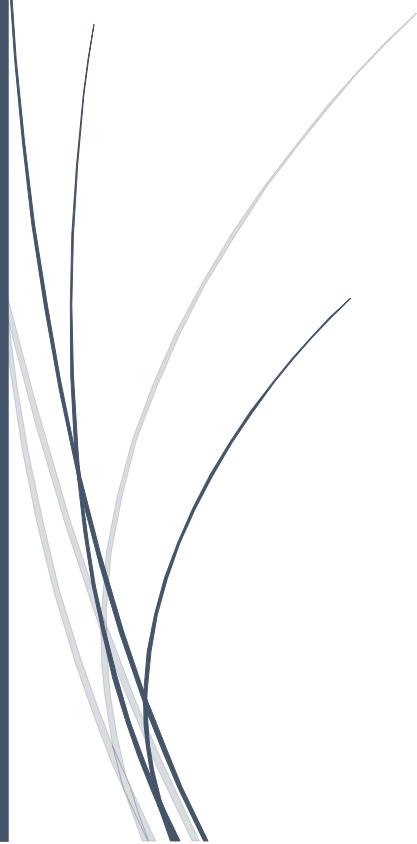


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# Motivation and compensating salespeople



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## **Defining motivation**

Has been a tedious job for psychologists, sales management researchers, and sales managers.

After decades of study, the most used definitions of motivation include three dimensions : - **intensity, persistence, and direction.**

**Intensity** : refers to the amount of mental and physical effort put forth by the salesperson,

**Persistence** : describes the salesperson's choice to expend effort over time, especially when faced with adverse conditions.

**Direction** : implies that salespeople choose where their efforts will be spent among various job activities.

Motivation can also be viewed as intrinsic or extrinsic. If salespeople find their job to be inherently rewarding, they are intrinsically motivated. If they are motivated by the rewards provided by others, such as pay and formal recognition, they are extrinsically motivated.

However, a salesperson's overall motivation could be a function of both intrinsic and extrinsic motivation, some will have strong preferences for extrinsic rewards, such as pay and formal recognition awards, whereas others will seek intrinsic rewards, such as interesting, challenging work.

### **Reward system management**

It involves the selection and use of organizational rewards to direct salespeople's behavior toward the attainment of organizational objectives.

Organizational rewards can be classified as compensation and noncompensation rewards.

**Compensation rewards** : are those that are given in return for acceptable performance or effort. These rewards can include nonfinancial compensation, such as recognition and opportunities for growth and promotion.

**Noncompensation rewards** : these basically involve factors related to the work situation and well-being of each salesperson. Sales jobs that are

interesting and challenging can increase salespeople's motivation, as can allowing salespeople some control over their own activities.

Other examples of noncompensation rewards are :

1. Providing adequate resources so that salespeople can accomplish their jobs.
2. Practicing a supportive sales management leadership style.

Exhibit 1.0 shows the most popular incentives based on a survey of sales executives

<b>Incentive</b>	<b>Executives indicating as Most Popular.</b>
cash	58%
Plaques/ rewards	30%
Recognition dinners	26%
Leisure trips/ travel	26%
Merchandise/ gifts	24%

Companies such as IBM, Eastman kodak and Xerox tie compensation to customer satisfaction. In fact research shows that 93 percent of technology companies tie compensation to customer satisfaction and loyalty. Some automobile dealers have tried to reduce customer dissatisfaction stemming from high-pressure sales techniques by paying their salespeople a salary

instead of a commission based on sales volume. Others adjust the salesperson's commission based on customer satisfaction with the salesperson's handling of the sale. Research indicates that salespeople are more customer oriented when customer satisfaction incentives are used.

### **Types of salesforce rewards**

**Financial compensation :** in many sales organization's, financial compensation is composed of current spendable income, deferred income or retirement pay, and various insurance plans that may provide income when needed. In terms of our discussion, we will limit it to the current spendable income because it is the most controllable, and arguably most important, dimension of a salesforce reward system. The other components of financial compensation tend to be dictated more by company policy rather than by sales managers.

Current spendable income includes money provided in the short term (weekly, monthly, and annually) that allows salespeople to pay for desired goods and services. It includes salaries, commissions, and bonuses.

A comprehensive study of salesforce financial compensation practices found salaries, commissions, and bonuses to be used widely to pay salespeople. The study concluded that financial compensation plans including a salary and one or more incentives (commission and/or bonus) are the most popular. However, the chosen compensation system often depends on the organization's strategy, competitive offerings, and products or services sold.

The three basic types of salesforce financial compensation plans are straight salary, straight commission, and a salary plus incentive, with the incentive being a commission and/or a bonus.

### **Summary of Financial Compensation Plans**

<b><u>Type of plan</u></b>	<b><u>Advantages</u></b>	<b><u>Disadvantages</u></b>	<b><u>Common uses</u></b>
Salary	simple to administer; planned earnings facilitate budgeting and recruiting; customer loyalty enhanced; more control of nonselling activities.	no financial incentive to improve performance; pay often based on seniority, not merit; salaries may be a burden to new firms or to those in declining industries.	Sales trainees; sales support
Commission	income linked to results; strong financial incentive to improve results;	Difficult to build loyalty of salesforce to company; less control of	Real estate; insurance; wholesaling; securities; automobiles

	costs reduced during slow sales periods; less operating capital required.	nonselling activities.	
Combination	Flexibility allows frequent reward of desired behavior; may attract high-potential but unproven recruits.	complex to administer; may encourage crisis-oriented objectives	Widely used-most popular type of financial pay plan

**Nonfinancial compensation :** examples include career advancement through promotion, a sense of accomplishment on the job, opportunities for personal growth, recognition of achievement, and job security.

Sometimes nonfinancial rewards are coupled with financial rewards- for example, a promotion into sales management usually results in a pay increase- so one salesperson might view these rewards as primarily financial, whereas another might view them from a nonfinancial perspective.

### Opportunity for promotion

Is a highly valued reward among salespeople. Among younger salespeople, it often eclipses pay as the most valued reward. Given the increasing number of young to middle- aged people in the workforce, the opportunities for promotion may be limited severely in nongrowth industries. (growth industries, such as financial services and direct sales, offer reasonably good opportunities for advancement through promotion.) Because opportunities for promotion are not easily varied in the short run, the importance of matching recruits to the job and its rewards is again emphasized.

It should also be noted that a promotion need not involve a move from sales into management. Some career paths may extend from sales into management, whereas others progress along a career salesperson path.

### Sense of Accomplishment

Unlike some rewards, a sense of accomplishment cannot be delivered to the salesperson from the organization. Because a sense of accomplishment emanates from the salesperson's psyche, all the organizations can do is facilitate the process by which it develops. Although organizations cannot administer sense of accomplishment rewards as they would pay increases, promotions, or formal recognition rewards, the converse is not true- they do have the ability to withhold this reward, to deprive individuals of feeling a

sense of accomplishment. Of course, no organization chooses this result; it stems from poor management practice.

Steps to be taken to facilitate a sense of accomplishment in the salesforce. First, ensure that the salesforce members are aware the vital role they fulfill in revenue production and other key activities within the company. Second, personalize the causes and effects of salesperson performance. This means that each salesperson should understand the link between effort and performance and between performance and rewards. Third, strongly consider the practice of management by objectives or goal setting as a standard management practice. Finally, reinforce]feelings of worthwhile accomplishment in communication with the salesforce.

### Opportunity for Personal Growth

These are routinely offered to salespeople. For example, college tuition reimbursement programs are common, as are seminars and workshops on such topics as physical fitness, stress reduction, and personal financial planning. Interestingly, many sales job candidates think the major reward available from well known companies is the opportunity for personal growth. This is particularly true of entrepreneurially oriented college students who hope to “learn then earn” in their own business. In a parallel development, many companies showcase their training program during recruitment and selection as an opportunity for personal growth through the acquisition of universally valuable selling skills.

## Recognition

Both informal and formal, is an integral part of most salesforce reward systems. Informal recognition refers to “nice job” accolades and similar kudos usually delivered in private conversation or correspondence between a sales manager and a salesperson. informal recognition is easy to administer, costs nothing or practically nothing, and can reinforce desirable behavior immediately after it occurs.

Formal recognition programs have been popular in sales organizations. The insurance industry has the Million Dollar Roundtable, and “100%” clubs for those who exceed 100 percent of their sales quota are common. The ultimate recognition for Xerox’s sales elite is to be named a member of the President’s Club.

Formal recognition programs are typically based on group competition or individua accomplishments representing improved performance. Formal recognition may also be associated monetary, merchandise, or travel awards but is distinguished from other rewards by two characteristics. First, formal recognition implies public recognition for accomplishment in the presence of peers and superiors in the organization. Second, it includes a symbolic award of lasting psychological value, such as jewelry or a plaque.

As formal recognition, programs often feature lavish awards banquets and ceremonies to culminate the program and set the stage for future recognition programs. Because lavish expenditures for any salesforce

activity ultimately must be well justified in this era of emphasis on productivity improvement, it is evident that many companies believe that money spent on recognition is a good investment.

Case example : recognition and incentive programs at Federated Mutual Insurance, Sabrina Rogers, district marketing manager for Federated Mutual Insurance, discusses how the company uses recognition and incentive programs.

*"Federated Mutual Insurance has multiple incentive programs designed to drive and ensure activity, results, and success for individual who follow our business plan. The incentive plans are designed to provide consistent recognition for the top performing salespeople. At the beginning of the year, standards are set for these awards, including federated's most sought-after award- President's Council. Salespeople receiving this coveted award are praised for outstanding performance, which can lead to district recognition and national accomplishment. Federated's sales reps have long used the combination of knowledge, energy, and passion to achieve astonishing results, as well as receive one of the industry's best incentive packages. Future success is dependent on monitoring each sales representative to ensure outstanding results through adherence to our business plan, motivation, and a good work ethic. Our celebration of this success keeps our reps focused, resulting in a winning combination for our clients, reps, and company,"*

## Job Security

This is mostly highly valued by salespeople nearing retirement age. High performing salespeople may sense they have job security, if not with their present employer, then with the industry in general.

With the current wave of mergers, acquisitions, and general downsizing of corporations, it is becoming more difficult to offer job security as a reward. In the past job security was easier to assure, at least as long as performance contingencies were met. Another factor that will make it difficult to offer job security with a given company is the lack of unionization of salespeople in most fields.

## **Guidelines for motivating and rewarding salespeople**

Sale managers should realize that practically everything they do will influence salesforce motivation one way or another. The people they recruit, the plans and policies they institute, the training they provide, and the way they communicate with and supervise salespeople are among the important factors.

Guidelines for motivating salespeople are as follows:

1. Recruit and select salespeople whose personal motives match the requirements and rewards of the job.

2. Attempt to incorporate the individual needs of salespeople into motivational programs.
3. Provide adequate job information and ensure proper skills development for the salesforce.
4. Use job design and redesign as motivational tools.
5. Concentrate on building the self-esteem of salespeople.
6. Take a proactive approach to seeking out motivational problems and sources of frustration in the salesforce.

### Recruitment and selection

The importance of matching the abilities and needs of sales recruits to the requirements and rewards of the job cannot be overstated. This is especially critical for sales managers who have little opportunity to alter job dimensions and reward structures. Investing more time in recruitment and selection to ensure a good match is likely to pay off later in terms of fewer motivational and other managerial problems.

### Incorporation of Individual Needs

At the heart of the complexity of motivation is the concept of individual needs. Although there is considerable pressure and, in many cases, sound economic rationale for supporting mass approaches to salesforce motivation, there may also be opportunities to incorporate individual needs into motivational programs. For instance, some companies, such as

broadband equipment manufacturer Netopia, have turned to online incentive programs, such as InnergE (<http://www.hinda.com/technology/InnergE.html>), to meet the diverse needs of its resellers when attempting to motivate them. Resellers participating in the program log on to InnergE, where they can redeem points earned by selling Netopia products for rewards from a catalog of more than 2000 items ranging from digital cameras and DVD players to travel certificates.

### Information and skills

Salespeople must have high skill levels and be well equipped with the right information to do their jobs well. If sales managers train their people properly and give them the right information, salespeople can see how their efforts lead to the desired results. If salespeople's understanding of how their efforts produce results is consistent with that of the sales manager, reasonable goals can be set that allow performance worthy of rewards. Providing adequate information to the salesforce also enhances salesforce socialization , thereby reducing role conflict and role ambiguity.

### Job Design

Given the nature of sales jobs, one would expect good opportunities to stimulate intrinsic motivation without major changes in the job. Sales jobs allow the use of a wide range of skills and abilities; boredom is thus not a typical problem. And given the unique contributions of personal selling to

the organization, salespeople can readily see that their jobs are critical to the organization's success. Most salespeople have considerable latitude in determining work priorities and thus experience more freedom on the job than do many other employees. Finally, feedback from sales managers or through self-monitoring is readily available. In many ways, the motivational task is easier for sales managers than for other managers. The sales job itself can be a powerful motivator.

### Building Self-Esteem

Sales managers increase salesforce motivation by building salespeople's self-esteem. Positive reinforcement for good performance should be standard procedure. This may be done with formal or informal communication or recognition programs designed to spotlight good performance. When performance is less than satisfactory, it should not be overlooked but addressed in a constructive manner.

### Proactive Approach

Sales managers should be committed to uncovering potential problems in motivation and eliminating them before they develop. For example, if some members of the salesforce perceive a lack of opportunity for promotion into management and are demotivated as a result, the sales manager might take additional steps to clearly define the guidelines for promotion into management and review the performance of management hopefuls in light

of those guidelines. If promotion opportunities are indeed limited, the matching function of recruitment and selection again shows its importance.